

Senate File 528 - Introduced

SENATE FILE 528

BY CHELGREN

A BILL FOR

1 An Act relating to the state individual income tax by imposing
2 a flat tax at a single rate and providing effective date and
3 applicability provisions.

4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 2.48, subsection 3, paragraph e,
2 subparagraph (4), Code 2011, is amended to read as follows:

3 (4) The minimum tax credit under sections ~~422.11B~~, 422.33,
4 and 422.60.

5 Sec. 2. Section 12D.9, subsection 2, Code 2011, is amended
6 by striking the subsection.

7 Sec. 3. Section 422.4, subsections 1 and 2, Code 2011, are
8 amended by striking the subsections.

9 Sec. 4. Section 422.4, subsection 16, Code 2011, is amended
10 to read as follows:

11 16. The words "*taxable income*" mean the net income as
12 defined in section 422.7 minus the deductions allowed by
13 section 422.9, in the case of individuals; ~~in.~~ In the case of
14 estates or trusts, the words "*taxable income*" mean the taxable
15 income (without a deduction for personal exemption) as computed
16 for federal income tax purposes under the Internal Revenue
17 Code, but with the adjustments specified in section 422.7 ~~plus~~
18 ~~the Iowa income tax deducted in computing the federal taxable~~
19 ~~income and minus federal income taxes as provided in section~~
20 ~~422.9.~~

21 Sec. 5. Section 422.5, subsections 1 and 2, Code 2011,
22 are amended by striking the subsections and inserting in lieu
23 thereof the following:

24 1. A tax is imposed upon every resident and nonresident of
25 the state which tax is levied, collected, and paid annually
26 upon, and with respect to the taxable income, at the rate of
27 six percent.

28 2. A tax is imposed upon every estate and trust which tax is
29 levied, collected, and paid annually upon, and with respect to
30 the taxable income, at the rate of six percent.

31 Sec. 6. Section 422.5, subsection 6, Code 2011, is amended
32 by striking the subsection.

33 Sec. 7. Section 422.7, Code 2011, is amended by striking the
34 section and inserting in lieu thereof the following:

35 **422.7 Computation of "net income".**

1 1. In the case of individuals, "net income" means the
2 adjusted gross income as properly computed for federal
3 income tax purposes under the Internal Revenue Code with the
4 adjustments made in this subsection.

5 a. The adjusted gross income is adjusted by adding the sum
6 of the following:

7 (1) The amounts paid or accrued to the taxpayer as interest
8 or dividends during the tax year to the extent excluded.

9 (2) The amount of tax imposed under this division to the
10 extent deducted for the tax year.

11 b. The adjusted gross income is adjusted by subtracting the
12 sum of the following:

13 (1) The amounts included pursuant to sections 402(a),
14 402(c), 403(a), 403(b), 406(a), 407(a), 408, and 409 of the
15 Internal Revenue Code, or included as distributions under any
16 retirement or disability plan for employees of a governmental
17 agency or unit, or retirement payments to retired partners that
18 are excluded in computing net earnings from self-employment
19 by section 1402 of the Internal Revenue Code and regulations
20 adopted pursuant to that section.

21 (2) The amount of tax imposed under this division which was
22 refunded to the extent included for the tax year.

23 (3) The amount included pursuant to section 111 of the
24 Internal Revenue Code as a recovery of items previously
25 deducted from adjusted gross income in computing taxable
26 income.

27 (4) The amount of social security benefits and railroad
28 retirement benefits, included pursuant to section 72(r) and
29 section 86 of the Internal Revenue Code.

30 (5) The sum of the amounts disallowed as deductions by
31 section 171(a)(2) and section 265(a)(2) of the Internal Revenue
32 Code and the amounts of expenses allocable to interest and
33 disallowed as deductions by section 265(a)(1) of the Internal
34 Revenue Code.

35 2. In the case of estates and trusts, "net income" means

1 the taxable income as properly computed for federal income tax
2 purposes under the Internal Revenue Code with the adjustments
3 made in this subsection.

4 *a.* The taxable income is adjusted by adding the sum of the
5 following:

6 (1) The amounts paid or accrued to the taxpayer as interest
7 or dividends during the tax year to the extent excluded.

8 (2) The following amounts to the extent deducted for the
9 items designated:

10 (a) For an estate, six hundred dollars.

11 (b) For a trust required under its governing instrument to
12 distribute all of its income currently, three hundred dollars.

13 (c) For a trust other than a trust described in subparagraph
14 division (b), one hundred dollars.

15 (3) The amount of tax imposed under this division to the
16 extent deducted for the tax year.

17 *b.* The taxable income is adjusted by subtracting the sum of
18 the following:

19 (1) The amounts included pursuant to sections 402(a),
20 402(c), 403(a), 403(b), 406(a), 407(a), 408, and 409 of the
21 Internal Revenue Code, or included as distributions under any
22 retirement or disability plan for employees of a governmental
23 agency or unit, or retirement payments to retired partners that
24 are excluded in computing net earnings from self-employment
25 by section 1402 of the Internal Revenue Code and regulations
26 adopted pursuant to that section.

27 (2) The amount of tax imposed under this division which was
28 refunded to the extent included for the tax year.

29 (3) The sum of the amounts disallowed as deductions by
30 section 171(a)(2) and section 265(a)(2) of the Internal Revenue
31 Code and the amounts of expenses allocable to interest and
32 disallowed as deductions by section 265(a)(1) of the Internal
33 Revenue Code.

34 (4) The amounts included in taxable income as adjusted
35 pursuant to paragraph "*a*" that are exempt from taxation by this

1 state either by reason of its constitution or by reason of the
2 constitution, treaties, or statutes of the United States.

3 Sec. 8. Section 422.8, subsection 2, paragraph a, Code 2011,
4 is amended to read as follows:

5 a. Nonresident's net income allocated to Iowa is the net
6 income, or portion of net income, which is derived from a
7 business, trade, profession, or occupation carried on within
8 this state or income from any property, trust, estate, or
9 other source within Iowa. However, income derived from a
10 business, trade, profession, or occupation carried on within
11 this state and income from any property, trust, estate, or
12 other source within Iowa shall not include distributions from
13 pensions, including defined benefit or defined contribution
14 plans, annuities, individual retirement accounts, and deferred
15 compensation plans or any earnings attributable thereto so long
16 as the distribution is directly related to an individual's
17 documented retirement and received while the individual is a
18 nonresident of this state. If a business, trade, profession,
19 or occupation is carried on partly within and partly without
20 the state, only the portion of the net income which is fairly
21 and equitably attributable to that part of the business, trade,
22 profession, or occupation carried on within the state is
23 allocated to Iowa for purposes of section 422.5, subsection 1,
24 ~~paragraph "j"~~, and section 422.13 and income from any property,
25 trust, estate, or other source partly within and partly without
26 the state is allocated to Iowa in the same manner, except that
27 annuities, interest on bank deposits and interest-bearing
28 obligations, and dividends are allocated to Iowa only to the
29 extent to which they are derived from a business, trade,
30 profession, or occupation carried on within the state.

31 Sec. 9. Section 422.8, subsection 4, Code 2011, is amended
32 by striking the subsection.

33 Sec. 10. Section 422.9, subsections 1 and 2, Code 2011,
34 are amended by striking the subsections and inserting in lieu
35 thereof the following:

1 1. In computing the taxable income of an individual,
2 there is deducted from net income the standard deduction as
3 determined under subsection 2, or in the case of a nonresident,
4 there is deducted from net income the product of the standard
5 deduction as determined under subsection 2 times a fraction
6 of which the nonresident's net income allocated to Iowa, as
7 determined in section 422.8, subsection 2, is the numerator and
8 the nonresident's total net income computed under section 422.7
9 is the denominator.

10 2. The standard deduction is equal to the product of one
11 thousand dollars times the number of exemptions allowable to
12 the taxpayer for the tax year under section 151 of the Internal
13 Revenue Code.

14 Sec. 11. Section 422.9, subsections 4 through 8, Code 2011,
15 are amended by striking the subsections.

16 Sec. 12. Section 422.13, subsection 1, paragraph c, Code
17 2011, is amended to read as follows:

18 c. However, if that part of the net income of a nonresident
19 which is allocated to Iowa pursuant to section 422.8,
20 subsection 2, is less than one thousand dollars the nonresident
21 is not required to make and sign a return ~~except when the~~
22 ~~nonresident is subject to the state alternative minimum tax~~
23 ~~imposed pursuant to section 422.5, subsection 2.~~

24 Sec. 13. Section 422.13, subsection 2, Code 2011, is amended
25 to read as follows:

26 2. Notwithstanding any other provision in this section,
27 a resident of this state is not required to make and file a
28 return if the person's net income is equal to or less than the
29 appropriate dollar amount listed in section 422.5, subsection
30 3, upon which tax is not imposed. A nonresident of this state
31 is not required to make and file a return if the person's total
32 net income allocated to Iowa in section ~~422.5~~ 422.8, subsection
33 ~~1, paragraph "j"~~ 2, is equal to or less than the appropriate
34 dollar amount provided in section 422.5, subsection 3, upon
35 which tax is not imposed. For purposes of this subsection,

1 the amount of a lump sum distribution subject to separate
2 federal tax shall be included in net income for purposes of
3 determining if a resident is required to file a return and the
4 portion of the lump sum distribution that is allocable to Iowa
5 is included in total net income for purposes of determining if
6 a nonresident is required to make and file a return.

7 Sec. 14. Section 422.21, subsection 5, Code 2011, is amended
8 by striking the subsection.

9 Sec. 15. REPEAL. Section 422.11B, Code 2011, is repealed.

10 Sec. 16. EFFECTIVE DATE AND APPLICABILITY. This Act takes
11 effect January 1, 2012, and applies to tax years beginning on
12 or after that date.

13 EXPLANATION

14 This bill rewrites the state individual income tax by
15 creating a flat tax structure and imposes a single rate of 6
16 percent on the taxable income of every taxpayer subject to the
17 individual income tax.

18 The bill creates a flat tax structure by eliminating most
19 of the deductions and exclusions previously available when
20 computing net income and taxable income for Iowa tax purposes
21 and by eliminating the alternative minimum tax.

22 The bill provides for a standard deduction equal to \$1,000
23 for each personal exemption the taxpayer is allowed to take
24 under the federal Internal Revenue Code.

25 The bill retains the current tax credits available under the
26 individual income tax with the exception of the minimum tax
27 credit.

28 The bill takes effect January 1, 2012, for tax years
29 beginning on or after that date.